

Research China

Four key questions on 20th National Congress of the CPC

- **China's 20th National Congress of the Communist Party of China (CPC) kicks off on Sunday 16 October. Below we look at some key questions that will be in focus.**
- **A key focus will be if the CPC will signal a coming change in the zero-Covid policy. We would not get our hopes too high.**
- **Xi Jinping is set to get another 5-year term and we expect that he will cement his power, at a time when China is facing many challenges both domestically and abroad.**
- **We expect a lot of continuity in the policy blueprint and expect few changes. A key part of China's policy now is self-reliance and developing secure supply chains less dependent on the West.**
- **With few new policy signals expected, the Congress should have a limited impact on financial markets.**

On Sunday, President Xi Jinping will kick off the 20th National Congress of the CPC by reading out the Work Report, which is a blueprint of 60-70 pages on China's policies and plans for the next five years. During the Congress, which normally lasts around a week, the meetings are mostly behind closed doors. On the first day after the Congress has ended, China's new top leadership in the CPC - the Standing Committee of the Politburo - is presented.

Below we look at four key questions to keep an eye on:

1: Will there be a change in the zero-Covid policy?

Until a week ago, we would say it was 50-50. But this week new articles in People's Daily, China's main state newspaper, indicated that **we should not get our hopes too high for a change in the dynamic zero-Covid policy**. A commentary yesterday in People's Daily called for "*patience in the current epidemic and control policies*". It follows an article in the same paper on 5 October saying "*Recently, some people have seen that some foreign countries have chosen to "lie flat" in the face of the epidemic, and believe that our country's insistence on dynamic zero-Covid is too costly and should follow suit to achieve coexistence with the virus. This is an extremely wrong and irresponsible view. The Omicron variant is by no means a "big flu", and its spread is fast. For vulnerable groups, especially the elderly with underlying diseases, the severe and fatal rates are still high. Therefore, we must stick to our own path, and persistently do a good job in epidemic prevention and control*".

It seems that China is still not seeing the economic cost as outweighing the health cost in terms of expected deaths among its' older population. New variants of Omicron have also shown up that are even more contagious and better at evading the immune system, which also points to China waiting. Our baseline is that the dynamic zero-Covid policy will be

What to watch – and when?

- The Congress runs from 16 October for around one week.
- On the first day, President Xi Jinping will present the Work Report. It will take stock of China's achievements and outline policy for the coming years.
- On the day after the Congress ends, the new Central Committee will have its 1st Plenum. The Standing Committee of the Politburo will be presented afterwards.

A few facts on Chinese politics

- Since 1992, the Chinese leader has been in office for two terms, each amounting to five years. However, Xi Jinping is likely to break this norm and be elected for a third term.
- The leader of CPC is appointed at the Party Congress and typically has more leading positions. Xi Jinping is thus both General Secretary of the Party, President of China and Chairman of the Central Military Commission (CMC).
- Xi Jinping was appointed President in 2012 following the two five-year terms of Hu Jintao in the period 2002-2012. Before that Jiang Zemin was President from 1992-2002. He took over from Deng Xiaoping who was China's leader from 1979-1992. Deng Xiaoping launched the reform and opening up policy that paved the way for China's rise.
- It is the norm that the next President is designated at the Party Congress five years in advance. However, this was not the case in 2017. A focus point this time will be if there are any signs that a possible successor is appointed. If so, it could be a sign Xi would step down in 2027.
- Since 2002 the Party has had an informal rule that a person cannot continue in the Standing Committee of the Politburo if he has turned 68.

abandoned in Q2 next year, but it is a highly uncertain projection that will also depend on how the virus develops over the winter, with possibly new variants developing. For an overview of China's arguments for the zero-Covid policy, see this [press release](#) from July called Dynamic zero-Covid: a MUST for China.

#2: How will political power be divided?

The Congress is always studied closely to see how power is divided between different factions or more centralized around the President. Last time, the seven members of the Standing Committee represented a broad range of factions, but the Politburo consisting of 25 members (that include the Standing Committee) had a strong tilt to Xi allies. China has an informal rule of retirement in the Politburo at 68 (except for Xi Jinping who is 69), which means there will be people leaving and replaced by younger members.

Some political focus points will be:

- **What titles will Xi get?** If he is named 'Peoples Leader' or the 'Helmsman' or Chairman of CPC, it would elevate him to a higher status and cement his power in the Party even further.
- **Will there be a successor?** While the removal of the two-term limit has paved the way for Xi to be President and General Secretary for life, it is not written in stone. It is a possibility that he could step down after the next term in five years, but if so a successor would be designated already at this Congress. One name that has been mentioned is Hu Chunhua, currently member of the Politburo and front-runner to become new Premier when Li Keqiang steps down (there is still a two-term limit on this post).
- **Will we see reformers in the Standing Committee or not?** Some factions are more reform minded than others, so who gets elected also sends a signal on the road ahead in terms of the path of market vs. state. China's economic czar Liu He will step down and focus will be on who takes over from him.

We believe that Xi Jinping will cement his power as China faces a lot of headwinds both externally and internally. From China's point of view, this raises the need for strong leadership and a signal of unity. Last time the "*Xi Jinping Thought on Socialism with Chinese Characteristics for a new Era*" was put forward in the Work Report and written into the Constitution alongside contributions from Mao Zedong and Deng Xiaoping. If it is shortened to just "Xi Jinping Thought" it would be seen as a signal of elevating his status further, as it would be more in line with the designation of Mao's contribution, which is called "Mao Zedong Thought" and Deng Xiaoping's contribution named "Deng Xiaoping Theory".

#3: What economic policy signals are we going to see?

The Work Report will outline China's economic priorities and policies to achieve the goals. Given that Xi Jinping has been leading China for ten years now and outlined the key economic policies, it is doubtful there will be a lot of change. Last time the sections on the economy highlighted 1) furthering supply side reforms, 2) making a country of innovators, 3) improving the property rights system, 4) ensuring fair and orderly competition, 5) a decisive role for the market in resource allocation and more effective market mechanism, 6) strengthening the state sector as well as supporting the private sector, 7) further climb the value chain in manufacturing, 8) open up further, and 9) strengthen green development. These points are unlikely to change.

However, since the Congress five years ago, Xi Jinping has emphasized self-reliance even more, as China faces significant headwinds on technology from US export restrictions. The latter was *tightened much further* last week, underlining China's need for more self-reliance in this area and investments. Food and energy security is also high on

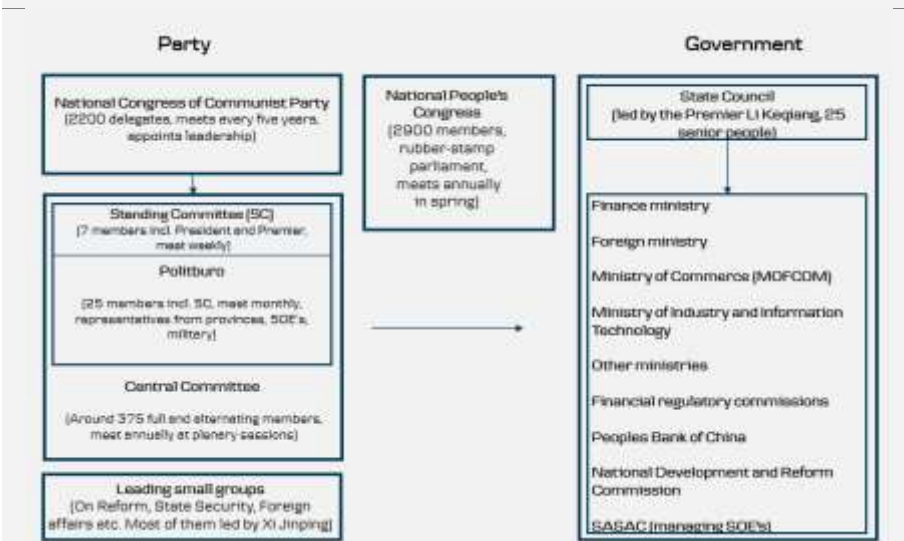
the agenda. Self-reliance is also part of the ‘dual circulation’ policy and China’s ‘*New Development Philosophy*’ outlined a few years back.

The Common Prosperity goal was actually already mentioned five years ago, but got a lot more attention in recent years by Western commentators and media. It will likely be repeated, as China stresses the goal of making everyone prosperous and reduce inequality to secure social cohesion.

#4: Will it matter for financial markets?

As we do not expect major changes in China’s policy guidelines, we doubt there will be much impact on financial markets. If Xi underlines that zero-Covid policy is here to stay, it could have a negative impact on Chinese stocks, though. Of course, any signal of an easing of the policy would be positive, but as mentioned, we see a quite small chance of this.

Overview of China's political system



Source: Danske Bank

What is the National CPC Congress?

China’s 1st National Congress of the CPC was held in 1921 and since 1982 it has taken place every five years. It is not to be confused with the People’s National Congress, which takes place every year in March. **The year of the CPC Congress is the ‘election year’ in China as the top leadership of China – the Standing Committee of the Politburo – is appointed after the end of the Congress.** The Standing Committee typically consists of 5-9 members and currently has seven members including the President Xi Jinping and the Premier Li Keqiang.

The rest of the Politburo consisting of a total of 25 members (including the Standing Committee members) is also elected and is a part of the Central Committee that currently consists of around 375 full and alternating members. The total number of delegates at the Congress is 2,296 this year.

While the Standing Committee is officially appointed at the first plenum of the Central Committee immediately after the Congress, the decision is in reality taken in advance by the top leadership - and sometimes previous leaders.

Source: Danske Bank, Chatham House: A guide to the Chinese Communist Party's National Congress

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